

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

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P R 041629Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0902

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DEPARTMENT PASS TREASURY, FRB AND CEA

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E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: LATEST ECONOMIC INDICATORS SHOW INDUSTRIAL  
PRODUCTION UP, BUT A DECLINING DOMESTIC DEMAND  
PICTURE AND DISAPPOINTING UNEMPLOYMENT DATA

REF: BONN 11443, BONN 11657

SUMMARY: INDUSTRIAL PRODUCTION IS INCREASING AT A FAIR TO GOOD RATE, DEPENDING ON WHICH COMPARISON PERIOD IS USED. THE SECOND QUARTER NEAR-10 PERCENT (S.A.A.R.) JUMP COULD MEAN REAL ANNUAL GNP GROWTH OF 4 PERCENT (IN THE BUNDESBANK SERIES) -- ABOUT HALF THE FIRST QUARTER'S RATE. (IN THE DIW GNP SERIES, BECAUSE OF METHODOLOGICAL DIFFERENCES, WE ROUGHLY ESTIMATE THE SECOND QUARTER GROWTH AT ABOUT THE SAME LEVEL AS THE FIRST, I.E., 6 PERCENT). DEMAND, AS MEASURED BY NEW ORDERS, WHILE SHOWING GOOD STRENGTH FROM ABROAD, IS SAGGING AT HOME. UNEMPLOYMENT ROSE IN JULY IN BOTH SEASONALLY AND NON-SEASONALLY ADJUSTED TERMS, CAUSING SUBSTANTIAL UPWARD REVISIONS OF FORECASTS OF WHAT MIGHT BE EXPECTED JUST BEFORE THE ELECTIONS. THE EARLIER UPTURN-INDUCED POSITIVE MOOD IS LOSING SOME OF ITS EDGE AS THE INEVITABLE SLOWDOWN OCCURS. END SUMMARY

1. THE SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX ROSE ONE POINT IN JUNE FOLLOWING ON A ONE POINT DECLINE THE PREVIOUS MONTH (ACCORDING TO REVISED DATA). WHILE THIS REFLECTS RELATIVE STAGNATION, THE SECOND QUARTER AS A WHOLE ROSE 9.8 PERCENT AT A SEASONALLY ADJUSTED ANNUAL RATE (S.A.A.R.) VIS-A-VIS THE FIRST QUARTER. COMPARING TWO-MONTH DATA (MAY-JUNE) WITH THE PREVIOUS LIKE PERIOD, AS THE BUNDESBANK DOES, YIELDS A LOWER 5.4 PERCENT (S.A.A.R.). THE FORMER RATE IS QUITE HEALTHY, BUT THE LATTER (PERHAPS BETTER INDICATOR OF CURRENT TRENDS) IS ON THE TEPID SIDE. (SEE TABLE I).

2. THE QUARTERLY COMPARISON OF INDUSTRIAL PRODUCTION IS INTERESTING IN WHAT IT IMPLIES FOR GNP DEVELOPMENTS IN THE SECOND QUARTER. WE WOULD GUESS, BASED ON PAST RELATIONSHIPS, THAT SECOND QUARTER REAL GNP IN THE DIW LIMITED OFFICIAL USE

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SERIES (CORRECTED FOR WORKING DAY VARIATIONS, AS IS THE INDUSTRIAL PRODUCTION INDEX IN TABLE I) WOULD BE UP BY ABOUT 6 - 7 PERCENT (S.A.A.R.), OR NEARLY THE SAME AS IN THE FIRST QUARTER. HOWEVER, IN THE BUNDESBANK GNP SERIES (WHICH IS NOT ADJUSTED FOR WORKING DAY VARIATIONS), THE SECOND QUARTER GROWTH RATE WILL PERHAPS BE IN THE 4 PERCENT (S.A.A.R.) RANGE, OR ABOUT HALF OF WHAT IT WAS IN THE FIRST QUARTER. (CAUTIONARY NOTE: THESE

ARE VERY ROUGH ESTIMATES OF SECOND QUARTER GNP GROWTH,  
AND SHOULD BE TREATED ACCORDINGLY.) IN THE NON-  
SEASONALLY ADJUSTED (BUT WORKING DAY VARIATION CORRECTED)  
INDUSTRIAL PRODUCTION SERIES, THERE WAS 6.2 PERCENT  
INCREASE IN THE FIRST HALF 1976 AS COMPARED WITH LAST  
YEAR'S FIRST HALF. THIS WOULD IMPLY YEAR-OVER-YEAR REAL  
GNP GROWTH WAS PROBABLY UNDER 6 PERCENT IN THE SAME  
PERIOD, WHICH HOWEVER DOES NOT NECESSARILY IMPLY A LESS  
THAN 6 PERCENT GROWTH RATE FOR THE YEAR AS A WHOLE EVEN  
WITH A SLOWDOWN IN QUARTER-OVER-QUARTER GROWTH SECOND  
HALF.

3. DEMAND, IN THE OVERALL AGGREGATE, IS WEAK. THE NEW  
ORDERS VOLUME INDEX (SEE TABLE I), WHILE UP IN JUNE,  
SHOWED NO GROWTH AT ALL IN THE SECOND QUARTER OVER THE  
FIRST QUARTER. USING THE TWO MONTH COMPARISON BASIS  
THERE WAS A DECLINE

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P R 041629Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0903

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OF 2.7 PERCENT (S.A.A.R.). UNDERLYING THIS DEVELOPMENT WAS THE VERY SHARP DROPOFF IN THE VOLUME OF DOMESTIC NEW ORDERS, WHICH WERE DOWN 2.9 PERCENT IN THE SECOND QUARTER, AND A FULL 29.0 PERCENT IN THE LAST TWO MONTHS AS COMPARED WITH THE PREVIOUS TWO (S.A.A.R). THE RESURGENCE OF FOREIGN DEMAND (UP 3.8 PERCENT IN THE SECOND QUARTER AND BY 41.5 PERCENT IN THE TWO MONTH COMPARISON) PARTIALLY COMPENSATED FOR THE WEAKNESS AT HOME, A TREND WE BEGAN TO NOTICE LAST MONTH, AND REVERSAL OF THE PICTURE CHARACTERISTIC OF EARLIER STAGES IN THE UPTURN. STILL, THE STALLING DEMAND FROM THE DOMESTIC ECONOMY AS SUGGESTED BY THIS DATA DOES NOT INSPIRE CONFIDENCE REGARDING THE SUSTAINABILITY OF THE UPTURN AND CLEARLY POINTS TO A WEAKER SECOND HALF. WHILE THIS LATTER IS NOT AN ENTIRELY UNEXPECTED DEVELOPMENT, IT SOMEWHAT REDUCES THE DEGREE OF OPTIMISM GENERATED BY THE EARLIER, MORE FAVORABLE PERFORMANCE STATISTICS. BESIDES THIS MOOD ALTERATION, THERE IS WORRIED SPECULATION ABOUT WHAT THE 1977 DEVELOPMENTS WILL BE IF THE ANGLE OF THE UPTURN FLATTENS TOO MUCH, A DISTINCT POSSIBILITY IF ONE CONSIDERS THE NEW ORDERS DATA A VALID FORWARD INDICATOR.

4. THERE ARE TWO DATA QUIRKS IN THE NEW ORDERS INDEX WHICH SHOULD BE NOTED. BOTH INVOLVE POSSIBLE OVERSTATEMENTS. IN THE ONE CASE, THE MARCH DOMESTIC NEW ORDER INDEX NUMBER AT 106 SEEMS, FOR UNKNOWN REASONS, TOO HIGH IN RELATION TO THE PRECEDING AND SUCCEEDING MONTHS' RESULTS. THIS HAS THE EFFECT OF POSSIBLY EXAGGERATING THE PERCENTAGE DECLINES WE NOTED AS TAKING PLACE IN THE

SUCCEEDING MONTHS. IN THE SECOND CASE, THE INDEX NUMBER FOR FOREIGN ORDERS IN JUNE IS ALSO ABERRANT; WE ARE INFORMED THAT ONE VERY LARGE ORDER FROM ABROAD PROBABLY ACCOUNTED FOR THE ABNORMAL JUMP. THIS WOULD TEND, OF COURSE, TO OFFSET THE EFFECT OF THE MARCH OVERSTATEMENT INsofar AS THE OVERALL NEW ORDERS GROWTH RATES ARE CONCERNED.

5. ALSO SOMEWHAT DISTURBING TO CONFIDENCE AND PERHAPS EVEN SHOCKING TO SOME WAS THE 23,600 INCREASE IN THE JULY UNADJUSTED UNEMPLOYMENT ROLLS TO A TOTAL OF 944,600 (4.1 LIMITED OFFICIAL USE

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PERCENT). IN THE SEASONALLY ADJUSTED TERMS WHICH WE USE IN THIS REPORTING SERIES (SEE TABLE II), THE NUMBER OF UNEMPLOYED ROSE SLIGHTLY TO 1,045,000, OR 4.6 PERCENT OF THE LABOR FORCE. IT SHOULD BE NOTED THAT ALL THE FIGURES HAVE BEEN REVISED UPWARD GOING BACK TO THE BEGINNING OF THE YEAR. IN ESSENCE, THE LAST THREE MONTHS HAVE BEEN VIRTUALLY STATIONARY IN TERMS OF THE NUMBER OF UNEMPLOYED, WITH ONLY A 38,000 REDUCTION TAKING PLACE BETWEEN JANUARY AND JULY. THE AVERAGE (IN THE SEASONALLY ADJUSTED SERIES) FOR THE FIRST SEVEN MONTHS OF 1976 IS 1,063,000; THE AVERAGE FOR 1975 WAS 1,074,000.

6. A GOVERNMENTAL CONTACT TOLD US THAT NO ONE NOW EXPECTS THE AUGUST-SEPTEMBER NON-SEASONALLY ADJUSTED UNEMPLOYED ROLL TO BE 800,000, AS EARLIER FORECAST BY THE FRG. HE SAID THAT THEY WOULD BE LUCKY TO REACH 900,000 BY SEPTEMBER, THE TIME OF YEAR WHEN SEASONAL INFLUENCES ON THE LABOR MARKET ARE MOST FAVORABLE AND THE MONTH BEFORE NATIONAL ELECTIONS. ANY IMPROVEMENT FROM NOW ON WILL BE EXTREMELY SLOW -- IF AT ALL -- IN SEASONALLY-ADJUSTED TERMS; IT WILL GRADUALLY WORSEN IN THE NON-SEASONALLY ADJUSTED SERIES FOLLOWING SEPTEMBER. THESE FINDINGS WOULD BE CONSISTENT WITH THE ECONOMIC GROWTH SLOW DOWN DESCRIBED IN PARAGRAPH 3.

6. PERTINENT TABLES DETAILING THE ABOVE FOLLOW:

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P R 041629Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0904

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TABLE I

SEASONALLY-ADJUSTED INDICES OF INDUSTRIAL PRODUCTION  
AND NEW ORDERS (1970 EQUALS 100)

	INDUSTRIAL PRODUCTION	NEW ORDERS VOLUME		
		TOTAL	DOMESTIC	FOREIGN
1976				
JAN	108	109	101	136
FEB	110	108	100	133
MAR	109	110	106	127
APR	112	109	101	133
MAY	111	108	99	131
JUNE	112	110	98	147

ANNUAL RATES OF CHANGE (PERCENTAGE)

MAY-JUNE OVER

MAR-APR	5.4	-2.7	-29.0	41.5
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APR-JUNE OVER

JAN-MAR	9.8	0.0	-2.9	3.8
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TABLE II

SEASONALLY-ADJUSTED REGISTERED UNEMPLOYMENT

	NUMBER UNEMPLOYED (THOUSANDS)	UNEMPLOYMENT RATE
1976		
JAN	1083	4.7
FEB	1086	4.8
MAR	1074	4.7
APR	1062	4.7
MAY	1044	4.6
JUNE	1044	4.6

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JULY	1045	4.6
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INDUSTRIAL PRODUCTION, UNEMPLOYMENT, ECONOMIC TRENDS, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976BONN13064  
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**Drafter:** n/a  
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**Handling Restrictions:** n/a  
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**Legacy Key:** link1976/newtext/t19760889/aaaadacj.tel  
**Line Count:** 378  
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**Previous Handling Restrictions:** n/a  
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**Review Authority:** ShawDG  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** LATEST ECONOMIC INDICATORS SHOW INDUSTRIAL PRODUCTION UP, BUT A DECLINING DOMESTIC DEMAND PICTURE AND DISAPPOINTING UNEMPLOYMENT DATA  
**TAGS:** EFIN, ECON, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006